

SUCCESS STORY

Portland District Office

Chai Means Tea in India



Prior to 1993, chai (a spiced milk tea from India) could not be found in Oregon. Heather Howitt stepped in to create Oregon Chai and taught herself the rudiments of marketing a new product.

"I was a cultural anthropology student at University of California in Santa Cruz and always had a desire to travel," said Howitt. "During my 6 and a half year plan, which included semesters off to travel, I went to India. Chai is served with lots of spices, milk and sugar. I was an immediate addict."

Howitt returned to U.C. Santa Cruz from India and noticed local restaurants and espresso bars also sold her favorite drink. She liked the convenience of having it available at local eateries. After graduation she returned to her hometown, Portland, Ore., to find that chai was not available for purchase, so she developed her own special brew to enjoy at anytime of the day.

In 1993, Howitt introduced her mother (Tedde McMillen, pictured) to chai and convinced her of the great business opportunity in selling it in Oregon. It didn't take much to persuade her mom, since she was a returning Portland State University student with time to join in a business venture. Howitt's home recipe for chai, which included plenty of vanilla, had to increase for bulk distribution and might require adjustments if the taste changed. Later, she discovered the flavor stayed the same regardless of size. McMillen searched for purveyors who sold ingredients in large quantities, eventually settling on Oregon Spice Company.

The Food Safety Division of Oregon's Department of Agriculture assisted Howitt and her mom with information regarding food safety and labeling. "The first thing I noticed was that we could not make the product in our home because we had a dog and a cat," said McMillen. "So, we had to find a kitchen. There was a church very close to our house, so I asked them if we could rent their kitchen one or two days a week. They agreed to let us use the kitchen for \$200 a month."

An inspector from the Agriculture Department approved the kitchen and issued them a license. Testing the safety of their product for consumer consumption was another requirement. Fortunately, they found a testing lab close to their home. The lab also analyzed the product for the correct nutritional information. For labeling requirements, McMillen called the Food and Drug Administration (FDA). FDA requires ingredients be listed in a special order, in a particular font and type size. Finally they had to secure liability insurance before going into production.

Howitt and her mom took their product to potential customers for feedback. One of the first visits was to a local bakery. They brought the chai and milk mixture in a quart jar for the owner to sample, and, according to McMillen, "He tried it and liked it, but he told us to continue to think about how the product could be served easily. If we found a simple solution, he would be willing to give it a try." They sold him the first quart for \$1.50. Later they discovered that the price was too low. The price barely covered expenses and didn't allow any margin for sales, marketing or distribution costs.

A few weeks later, they made an appointment with the head buyer of Nature's Fresh Northwest Grocery Stores. The buyer listened to their presentation, but was not interested in the product or even sampling it. This would have been a disappointing day had it not been for divine intervention. Howitt had a girl friend working at Nature's corporate office and for some reason, she spotted Howitt and her mom in the conference room with the head buyer. Howitt's friend ran into the room and tasted the chai sample. She called in other co-workers to taste it too. Everyone loved the product. A few days later, Nature's head buyer called Howitt and expressed the company's desire to sell the chai in the espresso bars of their four stores. They had to start cooking fast.

Howitt and her mom decided to produce a sweet tea without milk to prolong shelf life and to allow customers to add a milk product of their own choosing. McMillen purchased pots, measuring spoons, measuring cups, pitchers, funnels, spices, tea, plastic bottles and caps. After carting the supplies to the church kitchen, she measured and heated water, chopped vanilla beans, minced ginger, measured spices, made little tea bags out of nylon fabric and filled them with

the ingredients. While the tea brewed and steeped, Howitt's mom washed plastic bottles and caps. She added honey to the tea, filled the bottles with chai and labeled them with Oregon-shaped labels, which Howitt designed.

Next, McMillen cleaned up, packed supplies and product in boxes and carted everything back to her car. The process took approximately four hours. "I would often make product in the morning," said McMillen. "When finished, I would drive home, put away my supplies, change my clothes and take the product to customers, all in the same day. Extra product was placed in the basement." In 1994 Oregon Chai is born.

Due to demand, it was necessary to mass-produce labels and point-of-sale materials. "Heather made an appointment with Lisa Gambee, a graphic designer and owner of Creative Abandon," said McMillen. "Over one weekend they designed the point-of-sale materials such as table tents, posters and business cards. Our logo was changed from the shape of Oregon to a little cup with Mount Hood in it. The cost was \$2,500. I thought this was very expensive."

Sales were going well because the Oregon Chai team established four major customers. Up to this point Howitt and her mom wrote personal checks for everything. A corporate account was finally opened. It wasn't long before the duo received another call from Nature's requesting their interest in selling the product through the retail outlets as well as in the espresso bars. This meant mass production of Oregon Chai.

Macmillan states that she felt like the Sorcerer's Apprentice, "I was now making two eight-gallon batches of chai at each brewing session. For each batch I used all my pans and all the burners on the stove. Double batches meant twice the spice, tea and honey. Plus, I had to carry double the containers from my car to the basement. Then, worse yet, I had to carry double the heavy, water-based product up the church stairs and back out to my car. I felt like Mickey Mouse running back and forth with liquid boiling over on the stove. I began to dream about it filling the room, flooding the basement of the church, washing over the parking lot and splashing onto my car." Heather's mom was making 16 gallons of chai twice a week; it was time to incorporate.

By this time, Howitt had recruited Lori Spencer, an old high school chum, to assist with marketing ideas. McMillen's friend, Carla Powell, also joined the team just in time for the incorporation. "We solidified the recipe, found suppliers, developed a sales strategy, set up all the basic business procedures and government requirements so we thought we should hold a majority of the shares," said McMillen. Since Spencer and Powell were also working hard and no one was getting paid, Howitt and her mom wanted to give them company shares. George Spencer, Lori's attorney father, developed the agreement and the percentages of ownership. As McMillen stated, "I felt if the company failed it wouldn't matter how many shares were held and if we succeeded then there would be plenty to go around. We finally decided that Heather should have the majority of stock followed by me, Lori and Carla."

Howitt's husband, David, introduced his law school chum Brian Ross to McMillen in 1995 just at the right time. Although Ross' previous efforts to start his own business did not work out, he knew how to write a business plan and secure a small business loan guaranteed by the **U.S. Small Business Administration (SBA)** through a local bank. He wrote a plan for Oregon Chai and assisted in securing the financing. "There was no way we could pay Brian, so we offered him stock in the company," said McMillen. "A few days later he told us how many shares he wanted. I discussed this with our attorney. He felt it was too high, but Brian held firm. This meant dilution for the rest of us. It was another hard decision but as before, he was taking a big risk. If we failed it didn't matter how much stock we gave him." Ross joined the team.

The first office was set up in the McMillen home. McMillen and Powell brewed the chai and made deliveries. Howitt made sales calls. Spencer assisted with marketing ideas after her day job. The management culture was informal because they were friends working together. The company continued to grow rapidly with more problem-solving to come.

"In business you experience setbacks every day," said Howitt. "I think it's a matter of adjusting your mind-set to learn to cope and go-with-the-flow. I feel very strongly that business is all about problem solving."

When she and her mom received their **SBA loan of \$500,000**, Howitt went straight to an ad agency and signed away half of it and verbally committed the other half. Her mother was about to walk away from the whole thing and as Howitt states, "I'd call that a setback."

In order to distribute the tea nationally, Howitt and her mom needed a longer shelf life, but a minimum production run was more than a year's worth of inventory and hence, a risk.

According to Howitt, "Common sense would have deterred us from taking the crucial step, but that's the beauty of being clueless." So, they made the decision to first try manufacturing larger quantities for regional distribution. They also decided to find someone to produce it for them because the money required for purchasing or building a plant with equipment was prohibitive.

"We needed someone who had appropriate kettles to brew the tea and fill the finished product into plastic bottles. I made a list of variables and began to search for the manufacturer who could fill my list. I found my first manufacturer through a customer at Oregon Spice. The manufacturer, located in Clackamas County, Ore., had 180-gallon kettles and packaged bottles," said McMillen. Spencer's father assisted McMillen in writing a non-disclosure clause into the contractual agreement with the manufacturer to prevent theft of the chai formula.

"Had I known at the time, I could have blended the ingredients at a separate place or turned it to syrup to stop someone from knowing the proportions," said McMillen.

Later, other problems began to surface. McMillen purchased some low-grade honey, which caused the chai to sour, and a batch of tea was lost because lids were not placed on the containers immediately (hot packing). As a result, McMillen had to find a manufacturer that was mechanized for hot packing. These lessons taught her to set up a sound quality control system.

McMillen stated, "When we raised our second round of financing, we used most of that to get into new shelf stable aseptic packaging, commonly known as drink boxes." As the business evolved to national distribution, more research took place, new suppliers were found and many changes were made. Howitt and her team began to hire experts in product development, food science, sales distribution, marketing and finance. The company grew to 30 employees. Oregon Chai continued to grow throughout the United States, Canada and Guam.

Howitt and her mom find it hard to believe that in 1995 revenues were \$40,000 and in 2002, \$15 million. McMillen states, "I've been too busy enjoying the process and solving problems that I haven't had time to look at what our team accomplished."

Howitt's enthusiasm continues, "We still have a long way to go. Less than one percent of American households are familiar with Oregon Chai. My passion for chai gives me the energy to spread its great taste." The Kerry Group, a giant Irish food conglomerate, purchased Oregon Chai in March of 2004.

Lessons Learned from Tedde and Heather:

1. Take advantage of new business opportunities
2. Test your food product for consumer consumption
3. Know how mass production will change your product
4. Research and compile a list of purveyors who sell ingredients in large quantities
5. Know the governmental requirements for food safety and labeling
6. Check with the Dept. of Agriculture in your state to determine the type of test kitchen you need and where to locate one
7. Secure liability insurance
8. Be aware of how your product will be distributed
9. Research how to price your product
10. Make a list of potential buyers
11. Be prepared to mass produce labels and point-of-sale materials
12. To secure financing, prepare a formal written business plan to present to banks
13. Research the appropriate business structure for your business (Sole Proprietor, Partnership, Corporation, etc.)
14. Prepare yourself to solve problems
15. Plan for expansion
16. Make a list of what you need to expand
17. Seek legal advice regarding contractual agreements
18. Research the best way to protect your formula
19. Purchase the best ingredients
20. Know the type of packaging you need for your product
21. Set up good quality controls
22. Surround yourself with experts

Tedde McMillen, Author of [Million Dollar Cup of Tea](#)

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